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Testimony of Frank W. Ervin III

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Before the Michigan Senate Education Committee

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Good afternoon, Mr. Chairman and Members of the Michigan Senate Education Committee. My name is Frank Ervin. I am the Director of Government Affairs for Magna International, and on behalf of the more than 10,100 Magna employees working at 28 manufacturing facilities in Michigan, it is a pleasure to be here today to share Magna's perspectives on the future of the Michigan New Jobs Training Program (MNJTP).

As a company, Magna is focused on delivering superior value to our customers through innovative processes and world-class manufacturing. We are the most diversified automotive supplier in the world. We design, develop and manufacture body, chassis, interiors, exteriors, seating, powertrain, electronics, mirrors, closures and roof systems and modules, primarily for sale to original equipment manufacturers (OEMs) of cars and light trucks in North America, Europe, Asia, South America and Africa. We also offer complete vehicle engineering and contract manufacturing to OEMs around the world.

Magna is keenly aware of the intensely competitive market around the globe. Magna is also keenly aware of the skills gap among Michigan's workforce and the threat it poses to continued growth in this state. Started in 1957, Magna is now the largest automotive supplier in the United States and the third-largest



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supplier in the world, operating more than 400 manufacturing and product development facilities in 29 countries. In 2013, Magna's global sales approached \$35 billion USD. We currently employ more than 130,000 people worldwide.

While our global presence is robust, I am pleased to inform you that Magna has increased investment and hiring commitments in Michigan. Since 2009, we have committed to invest nearly \$789 million and create 5,800 new jobs in Michigan communities. These are, and will be, meaningful jobs with good pay and benefits, the kind of jobs that support families and help them build for a better future.

Therefore, it is critical to the health of Michigan's economy that government and industry work together to encourage skill development and job growth. Magna is pleased to share our views with members of the Committee on how the Michigan legislature might improve the MNJTP to help ensure sustained growth. In that regard, I will focus my remarks on the need for a public/private partnership between government and industry as a means of growing the skilled labor base in Michigan. A successful public/private partnership is based on the recognition of the key challenges and the most effective solutions for Michigan and its residents.

Let me commend Chairman Pavlov for convening this important hearing today. I will briefly highlight the three biggest issues facing the MNJTP and how the legislature can reinforce its success going forward.



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I. The \$50 Million Cap and the Funding Queue

The original intention of the legislation was to create an annual cap of \$50,000,000. However, the Michigan Department of Treasury has interpreted this cap to be an aggregate figure over the life of the program. As a result, the Michigan Community College Association (MCCA) and its member schools have been forced to implement an archaic funding rotation scheme. Instead of responding to business growth patterns, eligibility for funding under the program ultimately comes down to lucky timing. A business might be primed for growth, but if the local community college is not up in the “queue,” it could be months before another round of contract eligibility is made available. This kind of uncertainty does not take business realities into account and hinders the overall effectiveness of the program as an economic development tool.

Furthermore, the diversions under the program are from the withholdings of *newly created jobs* in Michigan. The State of Michigan does not experience a reduction in its personal income tax revenue from the prior year as a result of a new MNJTP agreement. These new jobs represent brand new payroll and withholdings over and above current levels in Michigan. Even though the State of Michigan will not realize an increase in state income tax revenue from the new jobs for the duration of an MNJTP agreement, substantial long-term benefits can be derived from employer investment and the resulting job creation. With respect to the automotive supply industry, manufacturing helps create jobs and drive the entire U.S.



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economy as a world leader. The location of a new Magna plant in Michigan has the potential to bring hundreds of new, good paying jobs and tens of millions of dollars in yearly expenditures with Michigan vendors. In order to encourage this kind of job creation, investment, and direct benefit to Michigan communities, the Michigan legislature should realize the full potential of the MNJTP and eliminate the \$50 million cap.

I. The State Minimum Wage and New Job Eligibility

One of the threshold requirements for MNJTP eligibility is that the new job must pay at least 175% of the state minimum wage. At the time the original legislation was passed, this meant that a new job must pay at least \$12.95 per hour to qualify for withholding diversion and training. However, the legislature's decision this past May to phase in higher state minimum wage levels between 2014 and 2018 has resulted in substantial uncertainty for MNJTP. Currently, there is no definitive guidance as to what minimum wage law applies to past agreements and how future minimum wage increases will affect the administration of the program. With a clear indication as to how the program will be implemented going forward, businesses cannot be reasonably expected to rely upon the MNJTP as a meaningful economic development initiative. The legislature should act and create consistency and reliability on this issue, because those characteristics are essential to a successful long-term economic environment.

II. The 2018 Sunset

Unless changes are made to the legislation, the MNJTP will sunset in 2018. In an effort to facilitate economic growth and resolve the chronic skills gap that pervades Michigan's workforce, the Michigan



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legislature should remove this limitation. The MNJTP could be a part of the solution to some of Michigan's biggest challenges, but its potential would be hindered if it is allowed to expire in 2018. Furthermore, economic development tools and other incentives are essential to Michigan's long-term viability as an attractive business environment. If the Michigan legislature allows positive programs like this to fall off, Michigan will be at a competitive disadvantage relative to other states that do show commitment to business development and job training.

Conclusion

In order to meet Michigan's biggest challenges, it is critical that government and industry work together to encourage skill development and job growth. The MNJTP offers some innovative solutions to these challenges, but its effectiveness ultimately depends upon government creating an efficient and effective environment and business meeting the deliverables set out in the statute. If the Michigan legislature removes the \$50 million cap, clarifies the impact of scheduled state minimum wage increases, and removes the expiration date on the program, the MNJTP could have a substantial positive impact for the State of Michigan, its residents, and its corporate citizens.